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Economic Liberalism and the State: Dismantling the Myth of Naïve Laissez-Faire

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ABSTRACT
The article offers a critique of the prevailing understanding of the relationship between neoliberalism and classic nineteenth-century liberalism in contemporary international political economy (IPE) and offers a redefinition inspired by Polanyi and Gramsci. Within critical IPE studies, a consensus has emerged that neoliberalism cannot be reduced to a simple attempt to roll back the economy and let loose free-market forces. However, this insight relies on contrasting neoliberalism with a classic liberalism, that is, a simple attempt to implement just this naïve laissez-faire ideology. In contrast, this article argues that nineteenth-century liberalism is also characterised by an active use of state and legislative power. Through a historical study of two cases from nineteenth-century Britain, Poor Law reform and the Gold Standard, the paper will argue that state action played a central role even during the heyday of laissez-faire liberalism. With a starting point in Polanyi's dictum that 'laissez-faire was planned', this reinvestigation will point towards a need to develop a more nuanced understanding of the distinctions between economic theory, ideology, and practical policy, as well as pointing towards a general reinterpretation of the role of the state in liberal economic ideology.

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The understanding of neoliberalism as an intellectual project has progressed greatly in the last decades with the emergence of a range of works dealing in depth with the theoretical tradition of neoliberalism across fields such as international political economy (IPE), sociology, and geography (Fourcade and Babb 2002, Brown 2006, 2015, Harvey 2007, Boas and Gans-Morse 2009, Mirowski 2009, 2013, Brenner *et al*. 2010, Caldwell 2011, Dean 2012, Davies 2014).

A central theme of much of the new literature on the intellectual roots of neoliberalism has focused on the issue of the state. An apparent paradox at the core of neoliberalism has motivated this interest in the state.

A growing consensus within political economy literature in recent decades has documented how neoliberal ideas about free markets and privatisation have been increasingly dominant in universities, government agencies, and international organisations since the 1980s (Campbell and Pedersen 2001, Hay 2001, 2004, Fourcade and Babb 2002, Jessop 2002, Backhouse 2005, 2009, Chwieroth 2007, Harvey 2007, Chwieroth 2009). This consensus has recently been joined by the research division of the International Monetary Fund (IMF) with their paper 'Neoliberalism: Oversold?' (Ostry *et al*. 2016). This neoliberal dominance has not in any meaningful sense meant a rollback of the state from the economy.

Among the new wave of more sophisticated works on neoliberalism, we have seen an understanding emerge in which the goal of neoliberalism is not seen as a simple realisation of the

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night-watchman state in which state power is rolled back in favour of market forces. Instead, researchers such as Michel Foucault, Philip Mirowski, and Jamie Peck see neoliberalism as a project that is aiming towards a redefinition of the relationship between state and market. The goal is not only to deregulate, but also to use state power to reshape the economy actively.

This nuanced understanding of the relationship between state and market in neoliberalism, however, is often made by contrasting it with a distorted version of the classic liberalism of the nineteenth century,[1] which is portrayed as a simple realisation of the principle of laissez-faire[2] and the night-watchman state. This idea of a sharp contrast between neoliberalism and classic laissez-faire liberalism can be traced back to the early neoliberals such as Hayek or the ordoliberals who, in the period after the Great Depression, formulated the doctrines of neoliberalism as a stated contrast to what they perceived as the dogmatism and simplicity of classic laissez-faire liberalism. This sharp contrast between classic laissez-faire liberalism and neoliberalism was developed by Hayek and the early Mt. Pelerin Society in a special conjuncture in the 1930s and 1940s, but it has since been taken as gospel for a great number of studies, beginning with Foucault's analyses of neoliberalism in the late 1970s.

This picture is far from accurate, however. Laissez-faire liberalism's hegemony in the 1800s was not characterised by consensus on a naive rollback of state power. Instead, there existed a wide range of theoretical positions in relation to the state's role in the economy. In political practice, the period also saw economic liberals employ an imaginative and active use of state power means to promote the project of laissez-faire. Furthermore, later neoliberals such as Milton Friedman and his followers in the Chicago school, who came to influence the next generation of the Mont Pelerin Society, also set out a vision of the state which is much closer to the classic notion of laissez-faire than the writings of Hayek or the ordoliberals in the 1940s.

As such, the flexible and active use of the state to promote the goal of market regulation is not a specific ideological innovation by neoliberalism but rather something that can also be found in the classic laissez-faire liberalism. If we look beyond the self-representation of the early neoliberals in the mid-twentieth century that had a polemic interest in proposing a break with a purposed naïve and dogmatic laissez-faire of the classic liberal period, another picture emerges. Rather, there was a wide span of opinions on the proper role of the state among liberal economists in the classic period. Moreover, when looking at the political project of creating a market society in the nineteenth century, we can see a deep and creative use of legislation and state power to further the project.

This observation is not new, however, but is stated by Karl Polanyi who, in *The Great Transformation*, famously states that 'laissez faire was planned, planning was not' (Polanyi 2001). Less well known, Antonio Gramsci developed very similar ideas a decade before in his *Prison Notebooks* where he describes how laissez-faire too is a form of state 'regulation' (Gramsci 2011: 273). I will argue that these observations serve as a better platform for exploring the complex and contradictory relation between economic liberalism and the state than a juxtaposition between naïve and simple laissez-faire of the classic period with the flexible, pragmatic (and devious) neoliberalism of our time.

The article will attempt to revise the dichotomy between neoliberalism and classic laissez-faire by a review of the hegemonic period of classic liberalism in mid-nineteenth-century Britain to show how central characters of the early liberal political economy formulated a view of the state's economic role that is far more nuanced than a passive night-watchman state. This will be followed by a discussion of the central role of legislation and state power in the realisation of the project of market creation in the classic liberal period. Then, the article will show how laissez-faire thinking is also present in the neoliberal movement, while the final section will show how the observations of Karl Polanyi and Antonio Gramsci can be taken as a starting point for the development of a more nuanced understanding of the relationship between state power, capitalist practice, and economic theory.

From Hayek to Foucault

Few works have had a greater impact on the research in neoliberalism than Foucault's treatment of the subject in his lectures on *The Birth of Biopolitics* at the College de France in 1978–9 (Foucault

2008). In these, Foucault presents the idea that neoliberalism must be analysed as a distinct, new theory complex, which is radically different from the classic economic liberalism that triumphed in the 1800s. He states that 'Neoliberalism should not (…) be identified with laissez-faire but rather with permanent vigilance, activity, and intervention. This is very clear in most of the neo-liberal texts' (Foucault 2008: 132). Foucault describes a turn towards a more positive view of the state in the neoliberal movement, especially among Hayek and former ordoliberal such as Walter Eucken and Wilhelm Röpke who, in the 1930s and 1940s launched their economic thinking as a contrast to the classic idea of laissez-faire. The goal was not to minimise the size of the state but to reshape its institutions and use state power to spread market regulation to new parts of society.

The problem of neoliberalism was not how to cut out or contrive a free space of the market within an already given political society, as in the liberalism of Adam Smith and his contemporaries. Rather, the problem of neoliberalism is how the overall exercise of political power can be modelled on the principles of a market economy (Foucault 2008: 131). According to Foucault, the ultimate objective of the neoliberals was not to free-market forces through a rollback of the state. Instead, the aim was to develop a new governance of the self, which allowed the tools, and techniques of the market to be spread to more areas of life. In this way, the economics of individual competition and rationality of the market provided a normative model for society. This development culminated with Gary Becker of the Chicago school, who with his Economics *Imperialism*, used the neoclassic methodology to model and describe all forms of human behaviour from marriage preferences to the prevalence of crime.

Foucault's analysis of neoliberalism has been immensely influential and has spawned an immensely rich tradition of works, often focussing on issues of power, governance, and subjectivity (Lemke 2001, Read 2009, Davies and McGoey 2012, Dean 2012, Davies 2014, Brown 2015). A prominent example of the tradition is sociologist Wendy Brown, who describes how 'neoliberals deviate from laissez-faire economics in mobilising law and policy to support the market and shape social goals' (2006). It lies outside the scope of this article to engage with this tradition on other aspects than the insistence on the break of neoliberalism with classic liberalism when it comes to the state.

Outside of the Foucauldian tradition, this idea has also gained traction. Important contemporary analysts of neoliberal theory such as Jamie Peck (2010) and Philip Mirowski (Mirowski and Plehwe 2009, Mirowski 2013) have a similar take, as will be discussed below.

It is no coincidence that this understanding has been successful. The idea that neoliberalism aims to transform rather than decrease the state has been used as a counterweight to simplistic descriptions of the neoliberal project as a one-eyed attempt to roll the welfare state back or a simple market fundamentalist ideology based on blind faith in market forces (see Giddens 1999, Krugman 2009, Stiglitz 2009). This view became more popular after the millennium as it began to be clear that the neoliberal wave of reforms since 1980 had not led to any significant reduction in government size, even in liberal core countries like England, Australia, and the United States (Cahill 2014).

However, there are also problems in this approach to neoliberalism. There is a danger of uncritically taking over an assumption of a classic dogmatic laissez-faire that was advanced by early neoliberals such as Hayek under special conjunctural circumstances. The nuanced understanding of neoliberalism is thus provided by contrasting it with a very un-nuanced image of classic laissez-faire liberalism. This classic liberalism is portrayed as everything neoliberalism is not: dogmatically hostile to government regulation, keen on a simple minimisation of state power, and with no understanding of the active role of the state in constructing opportunities for new markets. Peck, for example, describes how the 'fundamental error in the foundations of 19th-century liberalism [was that it] gave the state hardly any other task other than to maintain peace, and to foresee that contracts were kept. It was a naive ideology' (2010: 3).

Mirowski similarly discloses how 'the dichotomies and rigidities that characterised classic liberalism with regard to its proposed firewalls between economics and politics' and how neoliberalism in contrast, 'has to be understood as a flexible and pragmatic response to the previous crisis of capitalism' (2013: 55). He also stresses that

> The starting point of neoliberalism is the admission, contrary to classic liberal doctrine, that their vision of the good society will triumph only if it becomes reconciled to the fact that the conditions for its existence must be constructed, and will not come about 'naturally' in the absence of concerted political effort and organisation. (Mirowski 2013: 61)

In this way, it paints a picture of classic liberalism where laissez-faire was not just an ideological guideline but also the actual executed policy. This image helps to highlight the neoliberal doctrine's distinct breakthroughs. The problem, however, is that the image thus drawn of classic laissez-faire liberalism is both simplistic and wrong.

The nuances of the laissez-faire doctrine

The classic laissez-faire liberalism is particularly linked to nineteenth-century Britain. Although there have been precursors among Enlightenment free-trade advocates such as Adam Smith and Bernard de Mandeville, it was in the period after the Napoleonic Wars that a genuine liberal political identity emerged (Fawcett 2015). In Britain in the decades after 1820, a liberal movement with advocates such as Ricardo, Richard Cobden, and Jeremy Bentham succeeded in implementing a political agenda of free trade, the rule of law, and protection of private property. Among the important political results were Poor Law reform in 1836 and the dismantling of protectionist grain laws in 1846 (Hobsbawm 2003). With their radical economic program centred on the market and free trade, the nineteenth-century laissez-faire movement distinguished itself markedly from the more socially oriented liberalism that came to dominate most liberal parties during the first half of the twentieth century (Freeden 1986). However, their radical economic ambitions did not mean that the relationship with the state was unison or naive. Regarding both theory and political practice, classic laissez-faire liberalism contained a far more diverse and nuanced view of the role of government than assumed by Hayek and the ordoliberals.

In the intellectual sphere, nineteenth-century laissez-faire liberalism contained both supporters of a minimal state, such as the Manchester School of Richard Cobden and John Bright, as well as liberals who had a much more positive view on government intervention, for example, in the utilitarian tradition of Jeremy Bentham and John Stuart Mill. In *Principles of Political Economy*, J. S. Mill in 1848 described how the state's role in the liberal community was not only to maintain peace and order but also to assume a variety of substantial economic roles. This included areas such as poor relief, education, the establishment of colonies, and in special cases where the market could not solve it, the construction of 'roads, docks, harbours, canals, irrigation systems, hospitals, schools, universities, printing presses' (Mill 1848: 54). The historian of economic thought, Roger Backhouse, describes how the majority of the period's politically active economists, including Ricardo, were organised in the Political Economy Club founded in 1821. These were supporters of free trade and opponents of government regulation, but who had 'a pragmatic outlook [on the role of the state] in which the role for laissez-faire was severely circumscribed' (Backhouse 2002: 150).

Practice of the liberal state

When it came to political practice, classic liberalism was not characterised by a unilateral laissez-faire either.

Despite self-representation as a doctrine of limited state action, this is not the historical record of accomplishment of liberals in power. Modern liberal capitalism in its British heartland did not grow in a situation of minimal state power, but rather, a situation of an unprecedented powerful state. Thomas Ertman's historical sociology has demonstrated how the British state from the Norman period was remarkably strong and coherent with a large bureaucratic reach. This situation did not change after the glorious revolution of 1688. In contrast, the state reached an even larger size in this period of liberal ascendancy. As Peer Vries (2015) has recently demonstrated in *State, Economy and the Great Divergence*, the English state in the period not only had vastly greater levels of resources, as measured in expenditure per capita, than comparable states in continental Europe but also in comparison to the most developed Asian states. In 1850, at the height of the laissez-faire period, Vries estimates the annual tax income of the British state to be the highest in Europe at 250 grams silver per capita, as compared to 180 gram in France, 95 gram in Prussia and 69 in Austria (Vries 2015: 81)

On the central question of the organisation and disciplining of labour, both state and private power played a key role. The creation of a free-market economy depended on the access to free but obedient workers who willingly sold their labour for a fair price. However, this creature that did not exist naturally, but rather, one had to be created. The process of commodification of labour was not an automatic historical development. Nineteenth-century economic liberals understood that to create a genuine market for labour, they had to remove other substantive options than participation in the labour market. Here legislation and state power played an active and decisive role. The main barrier to the realisation of the desired labour market was the English poor laws (Blaug 1964). If the workers could receive support from the parish, the early liberals saw it as impossible to get the necessary number of workers to offer their labour for sale. The English poor-law system, which was based on a social benefit financed by the local parish, had its roots to the Tudor era but was enhanced considerably by humanitarian reformers in the late 1700s (Cowherd 1977: 14).

These welfare reforms were met with fierce resistance. At first, this resistance was driven primarily by a moralistic criticism, with Thomas Malthus as a leading figure, where it was seen as a moral imperative that the poor were subjected to hard work. It was not until the next wave of opponents, however, that the criticism of the poor laws was effectively organised. This group, whose work culminated in the major poor law reform in 1834, with Jeremy Bentham as a central figure and which consisted primarily of economic liberals who supported the project of laissez-faire (Cowherd 1977: 82). Bentham's opposition to the existing poor laws was based on utilitarianism and his belief in the free market. He believed that wealth came from the freedom to invest capital and that such freedom demanded the complete commodification of labour (Bentham 2001). To create the social situation, which made possible a real labour market, that is, the absence of other subsistence options than participation in labour for wages, it was necessary to use legislation and state power actively to remove the protective institutions and norms that stood in the way of this development.[3] In 1801, Bentham formulated his relationship to state power as follows:

> I have not, and never had, nor ever shall have any horror, sentimental or anarchical, the hand of government. I leave it to Adam Smith and champions of the rights of man (…) to talk of invasion of the natural liberty, and to give as a special argument against this or that law, an argument which would put a negative upon all laws (quoted from Hutchison 2002: 37).

The liberal reformers triumphed in 1834 with the poor law reform that sharply reduced the poor relief. Eric Hobsbawm emphasises that 'the Poor Law of 1834 was designed to make life so intolerable for the rural paupers as to force them to migrate to any job that was offered' (Hobsbawm 2003: 188). For the radical liberals behind the reform, this was not a problem but the target itself: the threat of unemployment and hunger as a motivating and disciplining factor that could be used to achieve a controllable workforce without direct coercion or violence as during the feudal system. Even John Stuart Mill expressed this sentiment in *Principles of Political Economy* where he stated that public assistance makes impossible any form of civilised management because, without the power to dismiss, it was only possible 'to extract real work from day labourers using the power of the whip' (1848: 263).

The international gold standard is often seen as the pinnacle of the nineteenth-century laissez-faire project. In theory, the gold standard was supposed to be a completely automatic, market-based system in which the value of the currency was tied to the commodity of gold through the ability to redeem bills for specie. This meant an automatic safeguard against inflationary policies put forward by the monarch or other social actors (Eichengreen and Flandreau 1997). On the international level, monetary flows between different countries would thus automatically adjust through the 'specie-price-flow-mechanism' laid out by David Hume in 1752 (1997 [1752]). The actual institution, however, never worked quite as smooth or automatic as the theory prescribed.

In recent work, Samuel Knafo (2006, 2013) has demonstrated how, with the formalisation of the gold standard in the middle of the nineteenth century, Britain created more state control over the monetary system, not less. The centralisation of the issuance of bank notes in the Bank of England meant easier control over the money supply than the previous practice of the issuance of notes by private banks (Knafo 2006: 90). This move not only allowed greater state involvement in the money supply, in concert with the Bank of England but also provided instruments to curtail the inflationary pressure that had characterised the decentralised system with issuances of notes from private banks during the Napoleonic war. Therefore, the move to the gold standard meant more, rather than less, state control over the currency when compared with earlier monetary practices, and it set the stage for the sort of monetary activism that followed in the twentieth century, where Keynes famously described the gold standard as a 'barbarous relic' (Keynes 2012). When the gold standard today is seen as a realisation of pure laissez-faire rather than an active system of monetary government by the state, it is because it is compared with the forms of monetary policy of regimes that followed rather than those it replaced. If we compare to this earlier situation, it can be seen that also the field of monetary management, the era of classic liberal laissez-faire was one of a more active and expanding state.

When you look at the economic liberals of the nineteenth century, it is important not only to recognise the doctrinal differences but also to distinguish between self-representation and political practice. On the one hand, almost everyone in the period was a nominal supporter of letting the self-regulating market forces rein, on the other hand, the vast majority were also open to the use of state power and legislation to remove barriers to commodification, and they saw the need for expanding state power over the individual when it came to disciplining labour.

Differences within neoliberalism

The thesis of the fundamental difference between classic laissez-faire and neoliberalism is not problematic only because of a simplistic understanding of the classic liberalism, but also of a one-sided understanding of neoliberalism. If we look at the neoliberal movement through its history, it is difficult to see a completely unambiguous rejection of laissez-faire or a markedly more positive view of the state than in classic liberalism. When early neoliberalism was formulated in the interwar period, it was during a period with growing power of governments who, with financial planning and fiscal policy, were able to intervene much more forcefully in the economy than had been the case previously. At the same time, the Great Depression that followed the stock market crash in 1929 had shaken the faith among the public in the market's self-regulating abilities.

It was in this atmosphere that Hayek and the ordoliberals saw a rhetorical and political necessity in distancing themselves from a perceived discredited ideology of laissez-faire.

If we read Hayek or the ordoliberals, we see an opening for a larger and more active role for the state and an active polemic against what they perceived as the naive laissez-faire of classic liberalism (Gray 1984, Gamble and Payne 1996, Bonefeld 2012). In 1944, Hayek states that 'Probably nothing has done so much harm to the liberal cause as the wooden insistence of some liberals on certain rough rules of thumb, above all the principle of laissez-faire' (2006 [1944]: 18).[4] Both in Hayek and ordoliberal, we see what Philip Mirowski call a 'market constructivist' position, that is, a notion that the self-regulating market is not just something naturally existing, but rather an institution that must be created through political action. The state's role is not only to step back and let market forces act but rather, actively to go in and construct the market.

However, this alone is far from the complete neoliberal spectrum, and especially Milton Friedman marked a markedly different attitude towards the state and the classic laissez-faire liberalism (Burgin 2012). Friedman and Hayek, both prominent members of the Mont Pelerin Society, agreed on the essential elements of the neoliberal programme and were, for example, both centrally involved in the development of a far more positive attitude towards private monopolies, even in cases where it counteracted the free competitive market. This marked a clear breakthrough compared to the adherents of classic liberalism, which, inspired by Adam Smith, generally took a critical stance towards the monopoly power of private companies as well as the state or trade unions (Van Horn 2009).

On two key issues, however, there was a fundamental disagreement between the two. In the methodological area, Friedman preferred the highly mathematical form of neoclassic economics, while Hayek denounced this methodology in favour of his Austrian school of economics. In the political sphere, there was disagreement about the relationship between the state and classic laissez-faire doctrine. In *Capitalism and Freedom,* Friedman advances a limitation of the state's size and rollback of the scope of regulation and directly describes his work as being 'in continuity with 19th-century liberalism' (1982: 13). Writing in a period in which capitalists and markets were not as unpopular as in the wake of the great depression, Friedman's very influential popularisation of neoliberalism presented in books and newspaper columns from the 1950s to the 1990s contained a much clearer defence of classic laissez-faire liberalism than found among early neoliberals. Although the Chicago school contained a variety of theoretical perspectives, it was especially Friedman's neoclassic-oriented approach that came to dominate, with a prominent representative in Robert Lucas who, with his theory of rational expectations, tried to delegitimise not only Keynesian macroeconomic policy, but also any attempt to pursue an active economic policy by the state (Lucas 1976, Offer and Söderberg 2016).

To maintain the thesis of the strong difference between neoliberalism and classic laissez-faire requires that we assume that Hayek expresses a more real version of neoliberalism than Friedman. Whether you ascribe these differences to the growing power and confidence of the neoliberal movement in later decades or philosophical differences, it is nevertheless clear that Hayek's early work cannot be seen as the unproblematic ideal type for neoliberalism.

Furthermore, if you look at how neoliberal ideas have had an impact in the community over the last decades, Friedman's neoclassic approach seems to have had a much greater role than Hayek's approach. This is true in economics science, international organisations like the IMF and the World Bank, and at the national level (Hay 2004, Backhouse 2009, Chwieroth 2009, Fine and Milonakis 2009, Stahl and Henriksen 2014, Ban 2016).

However, while Friedman and his followers have dominated in the theoretical sphere, this has not necessarily meant a simple rollback of the state in political practice. Rather, the public share of the economy has been relatively stable over the period since 1980 (Cahill 2014). This points towards a situation in which the understanding of the state of the liberal economy cannot be understood as a simple contrast between subversive classic liberalism and market-constructive and positive-state neoliberalism; something else must be at play. Philip Mirowski solves this dilemma by putting forward a theory that neoliberalism contains a 'double truth doctrine', where it is assumed to have both an exoteric and an esoteric version of their ideology. Outwardly, the Mt. Pelerin Society members preach free markets and deregulation, while internally they all understand that it is necessary to use state power to attain these goals. A much simpler assumption, however, is that the neoliberal movement contains ideological contradictions, and there is no less reason to take Friedman seriously when he talks about continuity with the classic laissez-faire than when Hayek criticises classic liberalism.

The problem of the liberal state

Jamie Peck argues that neoliberalism has only ever, 'existed in the "impure" forms, it can actually exist only as messy hybrids. Its utopian vision of a free society and a free economy are ultimately unworkable' (2010: 10). This characteristic seems obviously correct. However, as we have seen, the tension between the utopian element and the existing political practice is not a unique innovation for neoliberalism. It also existed in classic laissez-faire liberalism. This suggests that we are not dealing with a specific question of ideological innovation within the neoliberal movement but instead with a general tension between liberal economic ideology and capitalist practices.

The seedlings of a better understanding of this antagonistic relationship between state and economy in liberal economic thinking can be found in Karl Polanyi's work, where the utopian element of liberal thinking plays a central role. The goal of Polanyi's magnum opus *The Great Transformation* (1944) is to show the effects of the attempt to realise the 'stark utopia' of the self-regulating market. This involved the creation of a sphere of production and exchange that was completely decoupled from the coercive state and governed exclusively the free and equal exchange of goods by independent individuals. However, at the core of this utopian project lies a paradox – the only feasible way to this utopia of self-regulation goes through direct and continuous government intervention:

> There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course. Just as cotton manufactures – the leading free trade industry – were created by the help of protective tariffs, export bounties, and indirect wage subsidies, laissez-faire itself was enforced by the state. The thirties and forties saw not only an outburst of legislation repealing restrictive regulations, but also an enormous increase in the administrative functions of the state, which was now being endowed with a central bureaucracy able to fulfil the tasks set by the adherents of liberalism. (Polanyi 2001: 145)

Polanyi was not the first to point out the central role of the state, legislation, and coercion in the realisation of 'laissez-faire'. In *Prison Notebooks* in a fragment on economism, written between 1932 and 1934, Antonio Gramsci lays out very similar ideas on the inherently political nature of the classic liberal project.[5]

> It must be made clear that laissez-faire too is a form of state 'regulation', introduced and maintained by legislative and coercive means. It is a deliberate policy, conscious of its own ends, and not the spontaneous, automatic expression of economic facts. Consequently, laissez-faire liberalism is a political programme designed to change […] the economic programme of the state itself – in other words the distribution of the national income. (Gramsci 2011: 273)

What Gramsci describes is the analysis that laissez-faire liberalism should not be seen as the attempt to remove state power but, instead, as one of several forms the capitalist state can take.

Following Gramsci and Polanyi, we can state that the practice of liberal economic governance has never been of inaction. The creation of markets and space have always demanded the active hand of the state, and economic liberals have, in the nineteenth as well as the twenty-first centuries, taken over existing state structures and transformed them into vehicles of market reform. For the nineteenth-century classic liberalism in Britain, this meant the use of legislation and state power to tear down pre-existing modes of social subsistence to create a market for labour (Cowherd 1977); it meant the gradual construction of the gold standard to control the monetary system domestically and internationally (Eichengreen and Flandreau 1997), and it meant the employment of the military and diplomatic resources of the state to open new markets through colonisation abroad (Chang 2002, Bagchi 2005).

For the neoliberals in the late twentieth and early twenty-first centuries, this has meant the rollback of social insurance and the transformation of welfare to workfare (Jessop 2002); it has meant the introduction of financial deregulation and removal of capital controls (Chwieroth 2009), and it has meant the introduction of an international regime of free trade through the WTO and bilateral trade agreements (De Ville and Siles-Brügge 2015).

While these different policies are obviously different in scope and carried out in very different circumstances, I will claim that it is possible to abstract some general tendencies in the functions that a liberal economy needs from the state. The most apparent is the rule of law, to allow for the definition and protection of property rights, and for the acquisition of private profit in the market. This role of the state has often been at the centre of liberal's political reflection on state power. Adam Smith stated in *Wealth of Nations* that 'the acquisition of valuable and extensive property necessarily requires the establishment of civil government' (1990 [1776]: 208).

Beside this, there are, however, several moments where liberal economic governance needs a powerful state. In her work, *The State, Capital and Economic Policy*, Susanne de Brunhoff singles out the control of labour and the regulation of the monetary system as the crucial function of the liberal, capitalist state (1978).

Labour and money are fictitious commodities, as described by Polanyi, which, while not in themselves commodities produced for sale on the market, are nevertheless treated as such.[6] The commodification of labour and money means that they are subsumed under the chaotic fluctuation of market prices rendering instability into central parts of the economic system. In this way, the need for the state grows out of the inability of disembedded market forces to regulate themselves.

Economist Mike Beggs (2011) describes this as

> The economic system is not self-reproducing and depends on the state in a number of ways, most obviously for the legal foundation and enforcement of property rights, contracts, and so on. Beyond these 'night-watchman' duties acknowledged by classic liberalism, it also depends on the state for the reproduction of certain moments in the circuit of capital, namely, labour, power, and money.

The problem is, however, that any state powerful enough to secure property, regulate the labour market, and control the currency also poses a threat to private property and the opportunity for profit in the market. This may occur not only through confiscation but also by increasing wages and taxes or eroding the monetary wealth through inflationary policies.

Consequently, the economic liberal tradition has always had a contradictory relationship with the state; on the one side, the state has been necessary to stabilise any sort of market economy, while at the same time the state is a constant threat to the very economic activities that it creates the space for, standing as the great leviathan, a threat to a self-organised civil society. As such, while the state is necessary, it also represents a bête noir of the liberal tradition, functioning as the counter-image, to the utopian market society they want to create.

The non-state utopia

The liberal idea of the market is not only a vehicle of individual freedom through choice but also a collective solution to the problem of coercion of violence. In liberalism, the state is conceptualised as a realm of coercion and force. The jockeying for political power is always an attempt to gain power to force others to do one's will. The market, in contrast, is characterised by the use of economic power, which works through voluntary contracts and agreements. Thus, the state might be necessary to enforce the juridical system that allows for a system of contracts and exchanges and secures the right and property of the individual. However, in all substantial matters of individual welfare, solutions via the market are preferable to the realm of the state.

Albert Hirschman (Hirschman 1997), in his *The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph*, traces how the original argument for a liberal capitalism was laid out as a displacement of the competition for honour and domination in the political and public realms by the competition for profits and accumulation in the private and economic realm. The rationale for this was that, by this displacement, the passions that would otherwise find a violent outlet in the military or status-driven competition for honour and position could be moved to the peaceful but nevertheless competitive and dominance-driven field of the market. The social ideal was thus moved from the gentleman of leisure to the hard-working bourgeois.

In this way, economic competition in the market would not only be a vehicle for greater wealth but also of limiting the role of violent politics in favour of (peaceful) economics.

However, the idea of the radical distinction between the realm of the market and the realm of the state also contained a further implication. Because the market was seen as a sphere of equal exchange, it was also seen as a place where political, and thus moral, discussions, had no proper role. Robert Heilbroner, the eminent historian of economic thought, describes the main move of the liberal political economy as constructing the idea of the market as a sphere beyond the need for any political or ethical justification, essentially a 'demoralisation' of any market activity. He describes how

> The demoralisation of economic activity not only removed any need to justify the logic of capitalism, provided that it did not directly violate the law or outrage the deepest moral standards of society. Thus a kind of moral pardon is applied to all licit activity of the so-called capital-accumulating sector (…) As a result there is a further widening schism of worlds: one 'private', profitable and above intrinsic reproach, the other public, unprofitable and without the presumptive innocence of the private sector. (Heilbroner 1985: 116)

By constructing the market as a realm outside the traditional political consideration of legitimacy and coercion, where all interaction was a priori seen as a consequence of free-willed exchanges, the self-regulating market can thus be constructed as a realm of complete freedom. While this would openly declare this marketplace free of politics, rent, and power a description of the actually existing market, it is this version that is taught in Economics 101 classes all over the world (Hill and Myatt 2007, Madsen 2013, Zuidhof 2014), and with certain limitations, is what underlies the DSGE (dynamic stochastic general equilibrium) models used for economic forecasting across a range of think tanks and governmental institutions (Morgan and Knuuttila 2012). However, the idea of free and completely independent individuals exchanging goods in a market without the presence of coercion or the ability to influence market forces is a utopia, in line with the idea of the completely classless society.

German philosopher Joseph Vogl speaks of the idea of the market in liberal economics as an 'oikodicy' – based on Leibniz's famous idea of the 'theodicy', or justification of God. In Leibniz's formulation, despite pain and suffering, we live in 'the best of all possible worlds', because if God could have made the world otherwise, he would, in his omniscience, have done so. According to Vogl, this figure was taken over by early liberal economic thinkers to denote the workings of the market (2014: 14). While market outcomes, with inequalities and self-interest, might not be fortunate for all, the overall distribution of wealth through the market mechanism represents the best of all possible distributions. If there had been a better possible distribution, then market actors would have already made those exchanges. Vogl describes this justificatory figure as being present in a range of liberal economic theory from the invisible hand of Adam Smith to the neoliberal idea of 'the efficient market hypothesis', offering an a priori justification for any possible market outcomes.

For Polanyi, the attempt to realise the market utopia was essentially a quixotical project. An attempt to realise the complete commodification of land, labour, and capital, which was necessary for the self-regulating market mechanism to function, would undermine the very society in which the market was embedded (Polanyi 2001: 119).[7] In the colonies and peripherals countries, the experiment with the self-regulating market was allowed to run much longer than in the core countries and with consequences that were even more destructive than what Polanyi drew up. In Ireland in the 1840s and India in the last half of the nineteenth century, the full commodification of food production was allowed to run out to its logical conclusion, and millions starved to death when drought or plant diseases drove their incomes below subsistence level (O Grada 1993, Stahl 2016).

In the metropolitan core, the complete commodification remained an unrealised idea. And this unattainable character of the perfect market utopia lends an ideological drive to the liberal economic project. Because all existing markets, no matter what level of (neo)liberal deregulation, are always embedded in political structures, it is always possible to blame any failing of concrete reform projects on the insufficient strictness in the application of doctrine. This prevalence of this sort of implicit utopian idealism has meant that proponents of economic liberalism have always been able to represent it as an unfinished project, where the solution to market failures is more markets.

This tension between a utopian vision of the market as a space of freedom without the politics and coercion of the state and the practical need for state power has existed in the liberal political economy since its inception under early capitalism. The success of both classic laissez-faire liberalism and neoliberalism is due to the fact that both political movements contained both these aspects: both a market utopian energy that described the possibility of a society based on individualised voluntary exchange, freed from state and collective coercion, as well as a practical openness for using the institutional means of power made available by the modern state to realise this project.

This tension cannot be reduced to the difference between the naïve laissez-faire attitude of classic liberalism and a pragmatic, pro-state neoliberalism. Neither can it be reduced to the difference between extremists and moderates in the liberal movement through the ages (although that is some of the story). Rather, it must be seen as an unsolved and unsolvable tension inside the very core of the liberal economic project.

Conclusion: what remains of the concept of neoliberalism?

In recent years, we have seen a much more nuanced understanding of the role of the state in neoliberal thinking. This has helped break down the simplistic contrast between state and market that has characterised much economic discussion by demonstrating how the state in neoliberal theory and practice has been used to expand market regulation into ever-wider parts of society. This realisation is unfortunately often highlighted by contrasting neoliberalism with a caricatured version of the classic laissez-faire liberalism, which is portrayed as a naive rejection of government intervention. Inspired by Polanyi's and Gramsci's analyses, this article has tried to show that this is not the case. If we look at the classic laissez-faire liberalism in the nineteenth century, a far more nuanced picture appears. We see a much greater openness to the use of state power to construct new markets actively, both in terms of theory and political practice, than portrayed in the simplistic picture. At the same time, we also see differences within the neoliberal movement, and especially Friedman and his followers in the Chicago school are relatively close to the classic laissez-faire tradition. Thus, it seems that the tension-filled love–hate relationship to the state is not a specific feature of the neoliberal movement but, instead, a general tension within liberal economic thinking.

This continuity has led some to refrain completely from using the term neoliberalism. Andrew Gamble, one of the leading English readers of Hayek, for example, speaks of economic libertarianism (Gamble 2013), while the economist John Quiggin talks about market liberalism (2010).

By giving up the term neoliberalism, however, one loses sight of the fact that the form of liberal ideological hegemony we see today is historically distinct and shaped by specific institutional and ideological conditions. Even though neoliberalism has reinvented, and thus inherited, the dilemmas from the classic liberal period, it is a distinct intellectual formation, which can be traced to the Mt. Pelerin Society. This was not only a well-organised movement among intellectuals and wealthy patrons spreading known ideas. You can see distinct theoretical innovations from the network, such as the development of a much more positive view of large companies and their monopoly power (Hayek 1949). Simultaneously, as neoliberalism was formulated in a period of increasing macroeconomic activism by the state and a strong labour movement, much of the neoliberal project was focusing on criticising and overcoming the Keynesian economic and the welfare state.

In short, it is possible to point to several significant differences between neoliberalism and the classic liberalism. However, it is a fiction that we see a distinct divide between a naïve, classic, laissez-faire liberalism and a state-positive neoliberalism. What we see is, rather, a new phase in a much larger and longer conversation about the relationship between state and market in a liberal economy. Here we see a constant tension within the liberal economic thinking between a desire to limit the state to let the market have freedom, and a continuing need to use just state power to bring this project to fruition.

Notes

1. Liberalism is, for the purposes of this article, delimited as the self-identifying political liberal movement in line with Fawcett (2015). 'Liberals' from the period before the term was first used in Spain from the 1810s are, therefore, only touched upon sporadically.

2. The term laissez-faire originated from the physiocratic school in 1700s France (Viner 1960), but in this article, will be used to denote the period of the doctrine's dominance within liberal economic thinking in the first part of the nineteenth century.
3. A motivation not unlike late twentieth-century labour market reform and the transition from welfare to workfare (Jessop 1993).
4. Hayek changed between different denominations throughout his life. At the founding of the Mont Pelerin Society, he used neoliberal, but abandoned it later. In *The Constitution of Liberty* from 1960 he completely renounces the term liberal in favour of 'Old Whig'. With that, he wanted to highlight its commitment to the defence of individuality and property, which characterized the English revolution of 1688 or the Scottish enlightenment, but also marked the distance to the politically radical turn he thought liberalism later took.
5. Though both wrote their analysis out of the context of the breakdown of the liberal order and the cycle of revolution and reaction in the wake of the First World War, to my knowledge none of the authors were aware of the others work.
6. For Polanyi, the fictitious commodities also include land.
7. In the colonies and peripherals countries, the experiment with the self-regulating market was allowed to run much longer than in the core countries and with consequences that were even more destructive than what Polanyi drew up. In Ireland in the 1840s and India in the last half of the nineteenth century, the full commodification of food production was allowed to run out to its logical conclusion, and millions starved to death when drought or plant diseases drove their incomes below subsistence level (O Grada 1993, Stahl 2016).

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